

RV BUSINESS

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APRIL 7, 1989

RV Makers Expand Into Specialty Units

Commercial-vehicle production is gaining favor among RV manufacturers as both a profit center and a hedge against fluctuations in the RV marketplace, industry observers indicate.

Both small and large RV makers are now converting motorhome shells into medical units, bookmobiles and mobile sales shops. Shuttle buses and parcel-delivery vans are occupying more production space.

The trend was underscored by Winnebago Industries Inc.'s recent announcement of wide-scale production of a commercial entry, a new line of route-delivery step vans featuring a front-wheel-drive chassis designed and built by the Forest City, Iowa, motorhome maker. Winnebago's new aluminum-skinned walk-in van, which will feature a low-floor height and lengths of 22 and 25 feet, will be built in an 86,000-square-foot Forest City plant. The new unit's unveiling is set for September at a baking-industry convention.

Wakarusa, Ind.-based Holiday Rambler Corp. (HRC) already is a factor in the commercial-vehicle market through its Utilimaster Corp. division, a builder of "high cube" trucks, step vans and truck bodies, which has posted 50% annual growth in recent years.

In addition to its standard-size Aeromaster step-van line, Utilimaster—the nation's largest producer of cutaway high-cube vans—last fall introduced a Chrysler-powered front-wheel-drive Aeromaster mini walk-in van on a chassis produced by its new subsidiary, Utilimaster Motor Corp., also located in Wakarusa.

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MICROS: Thanks to a new Toyota chassis, market consolidation and product diversification, micro-minimotorhome makers are confident that their market is back on its feet. See page 32.

WDA Members to Vote on Increasing Suppliers' Role

An agreement has been reached between a group of North American RV aftermarket suppliers and the Bradenton, Fla.-based Warehouse Distributors Association (WDA) that may soon change the character of the 20-year-old trade association.

A ballot mailed to WDA's existing members in March and April will ask them to vote on a set of amended bylaws offering more equal representation for suppliers on the association's board of directors and executive committee.

If members support the changes, it will bring together, under one umbrella, a majority of the more active RV suppliers, who have indicated their desire for a more effective voice in industry affairs, and the 256 supplier and distributor members of WDA.

Along with the association's manufacturer's agent members, WDA's membership already rep-

resents "substantially more than half" of an aftermarket parts and accessory sector totaling about a half-billion dollars annually. However, WDA's distributor ranks have dwindled in an age of corporate consolidations and acquisitions to the extent that its 180 supplier members today outnumber distributors by nearly a 3-to-1 margin.

The supplier movement emerged last summer, as aftermarket suppliers expressed their frustrations at outnumbering other RV industry segments in key national trade associations while lacking the attendant clout and national platform. A consensus emerged out of a supplier meeting held during the Midwest Manufactured Housing & RV Show in South Bend, Ind., last August that the supplier group and WDA should negotiate a consolidation, particularly since WDA already had

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TWO DOLLARS



14



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A MIXED FORECAST FOR 1989, 1990

MORTON J. MARCUS

The slowdown in the growth of the national economy during 1989, which was forecast in these pages last December, may be both more and less than previously indicated. We are not trying to be obscure. Dramatic movements in both the RV industry and the economy since our last forecast have recast the view for 1989 and 1990.

Our main conclusions are unchanged: The national economy and the RV industry will realize slower growth in 1989. However, the pattern of that growth is altered, and the outlook for 1990 is more somber, but not depressing.

Overview

1988 closed with strong shipments moving the industry dramatically upward. The fourth quarter of '88 saw total shipments rise by 10,000 units over our expectations. Most of this strength at year-end was in van conversions. This sudden rise in the industry was a reflection of strength in the national economy, which outperformed expectations.

Despite disquieting factors in the national economy, the RV industry is expected to grow in 1989 by 19,000 units, or a 4.4% total gain. Van conversions, Class B and Class C motorhomes, and truck campers will carry the industry forward, with declines anticipated for travel trailers, folding camping trailer and Class A motorhomes.

This 1989 growth is in comparison to *all* of 1988. While the quarterly pattern of shipments seen in Figure 1 is generally downward for all of 1989 and '90, this is a downward movement from a sudden and remarkably high fourth quarter of 1988. If there were any special factors that inflated those numbers in that period, they are unknown to us. It is more likely that the RV pattern will be flat, not downward in 1989.

By the time 1990 arrives, the weakening forces of the national picture will reduce shipments for all types of RVs. The industry is now forecast to ship less than 425,000 units in 1990, a decline of just 1.6% from the recent 1988 levels.

The Detailed View

Towables, which closed 1988 with a

growth of 5,300 units, will fall to their 1987 levels in 1989, meaning total shipments of 145,000 units. In 1990, it is expected that there will be a further decline to about 136,500 units.

Motorhomes declined by 1,700 in 1988, after hitting nearly 75,000 units in 1987. That decline is anticipated to continue in 1989, with a still greater loss of 2,500 units. In the following year, the broad economic forces discussed below will shave another 8,100 units from the total amount of motorhome shipments.

Van conversions, on the other hand, advanced by more than 24,000 units (13.2%) in 1988, and 1989 will show another increase by year's end of 27,000 units. However, each quarter is expected to rise at a decreasing rate. By 1990, a 4% decline (9,400 units) is expected.

Annual shipments for individual types of RV may show higher levels in 1989 than in 1988, but the drift is downward. The higher annual numbers are realized because, by and large, the first half of '89 will be better than the first half of '88, but then the second half of '89 will be below the close of '88. Total RV shipments in Figure 1 show this

most clearly: In the first half of '88, they totaled 206,100 units; in '89, this figure is expected to be 229,200 units. Then in the second half of '89, the total is forecast to be 220,400 units, down from the 225,500 of '88.

On balance, then, '89 is higher than '88, but the trend is down. This numeric phenomenon results in a rise of 27,400 units for van conversions in 1989, followed by a loss of 9,400 units the following year. A more positive view is that, in the next two years, van conversions will average more than 10% above their 1988 level. A similar pattern holds for truck campers, which will average shipments that are 2% higher in the next two years than their 1988 level.

Less fortunate are Class B motorhomes, which had a down year in '88 and will average about the same 5,500-unit level for the next two years. Also, travel trailers are expected to average 10% below '88 levels. For folding camping trailers, the forecast is a little better: an average decline of only 1% below their 1988 level.

Class C motorhomes, by contrast, will have better years in both 1989 and '90 than they did in '88.

Figure 2 presents the detail for the var-

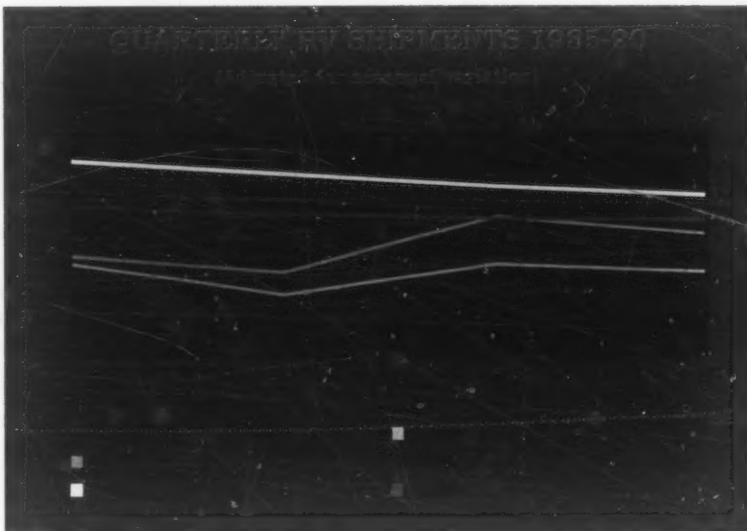


Figure 1

QUARTERLY FORECAST

ANNUAL GROWTH RATES AFTER ADJUSTMENT FOR INFLATION

	1987 Actual	1988 Actual	1989 Forecast	1990 Forecast
Gross National Product	3.4	3.8	2.4	0.9
Consumer Spending	2.7	2.8	2.2	0.7
Business Investment	2.8	9.5	1.8	0.9
Residential Investment	0.1	-1.6	6.4	-1.7
Exports	13.1	17.7	7.4	5.3
Imports	7.9	8.3	5.4	1.4
Government Purchases				
Federal	1.7	-3.2	1.0	-1.0
State & Local	3.3	2.7	3.1	2.4

Figure 3

KEY FACTORS IN THE FORECAST

	1987 Actual	1988 Actual	1989 Forecast	1990 Forecast
Prime Interest Rate (%)	8.2	9.3	12.3	13.4
Value of the Dollar (1973 = 100)	96.9	92.8	89.6	85.9
Unemployment Rate (%)	6.1	5.4	5.2	5.5
Percent Change at Annual Rates:				
Money Supply (M2)*	6.5	5.1	3.8	6.1
Real Disposable Personal Income	1.7	1.0	2.6	1.0
Consumer Price Index	3.7	4.1	5.9	6.6
Food & Beverage Prices	4.1	4.1	6.8	7.6
Motor-Fuel Prices	4.0	0.8	7.1	10.2

*M2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

Figure 4

ious types of RV models in our forecast. Here it is clear that the big-ticket items are the hardest hit. Travel trailers are down in both of the next two years, as are Class A motorhomes. From a high of 97,100 units in 1988, travel trailers fall to 85,300 units in 1990. The Class A units drop by 10,000 units from their 41,500 level of 1988.

The National Economy

The books are closed on 1988. Real gross national product (GNP), the value of all goods and services produced in the American economy after adjustment for inflation, was up by 3.8%. This strong growth is not anticipated for 1989 and '90. (See Figure 3)

A growth rate of 2.2% is expected for 1989, followed by a very sluggish 0.9%

growth in 1990. Consumer spending is expected to grow at comparable rates.

Export activity will be the leading sector in 1989 and 1990. Slower growth in business investment will retard overall development. Residential investment and federal government spending in 1990 are likely to decline.

Aren't these predictions just shy of saying

that a recession is at hand? No. Slow growth is still growth. But it is true that a recession is a stronger possibility in our view than it was just three months ago. The acceleration in inflation, higher capacity-utilization rates in manufacturing and the unresolved federal deficit problem have brought higher interest rates upon the nation, with their usual strong implications for the health of the RV industry.

Tightening Monetary Screws

In response to increased inflation factors, the Federal Reserve Board has been following the course of slower growth in the money supply. Already in 1988 we have seen this slow down (see Figure 4), and even slower monetary growth is forecast for '89. The result is an expectation of sustained higher interest rates. Nonetheless, consumer prices continue to rise, because it is so difficult to turn expectations around.

Last year's drought will have some bearing on food prices, but don't accept that as the chief reason for the higher prices on your eggplant, parmesan cheese and beer. The OPEC nations are at work, too, but they are only part of the force pushing petroleum prices upward. Inflationary expectations are on the loose, and firms are pressing to raise prices since they prefer to have fat margins cut by increases in the prices of labor and supplies rather than by the thin margins of current pricing.

The OPEC forces (and expected Bush ad-

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ANNUAL TRENDS

	1987 Actual	1988 Estimated	1989 Forecast	1990 Forecast
Unit Auto Sales (millions)	10.3	10.6	10.5	10.6
Unit Housing Starts (millions)	1.6	1.5	1.4	1.3
Federal Budget Deficit (billion \$)	157.8	143.3	150.2	156.8
Percent Change in Compensation per Manhour	4.6	5.0	5.9	6.4
Productivity	1.0	1.0	-0.5	-0.3
Unit Labor Costs (Compensation Less Productivity)	3.6	3.9	6.4	6.7

Figure 5

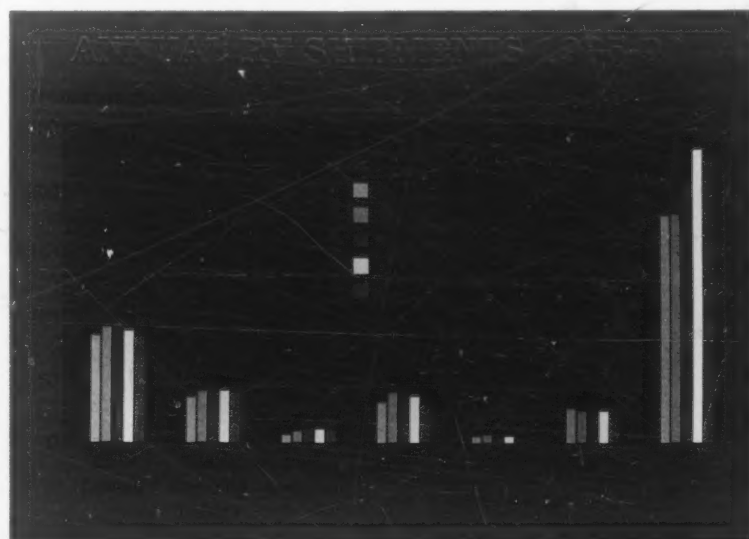


Figure 2

JANUARY WAS BEST-EVER SINCE '84

GAYLORD MAXWELL

RVB's Dealer Advisory Board (DAB) had a great January, the best first month since 1984. Nineteen of the DAB's 24 members were up from the previous year; in total dollars taken in by the board, the increase was 28%.

Four of the five RV categories were up in new-unit sales; one category of used was down (one was the same). New-unit sales were up 24%; used were up 7%.

New-unit profits were rated good or fair, while used-unit ratings were generally good or excellent. The service-and-accessory business was rated good, as were grosses. Bottom lines were considered good or fair.

Although one month does not make a trend, there is no doubt that January results give reasons for optimism in the RV business.

Motorhomes

After a rather discouraging ending last year, January's results were striking. The 40% increase in new-unit sales was plenty of reason for rejoicing by the 13 dealers out of 19 who beat last year's numbers. Four of the large dealers really hit the jackpot and accounted for much of the increase. Most smaller dealers were down only a unit or two. New-unit profits were generally rated good or fair.

Although the increase was not as great, used motorhomes did well in January, too; profits were great.

Based on the DAB's January report and other indicators, it would seem safe to predict that this will be a very good year for motorhome dealers.

Travel Trailers

The 20% increase in new-unit sales by the DAB was substantial, but it did not reflect a majority situation. Ten members of the board were up in sales, but 12 were either down or the same as the previous January. The fact that one dealer jumped from four units last year to 16 this January distorted the overall picture. However, it was by no means a bad month; any plus figures are good. Used units slipped into the plus column, too. Profits were rated generally good or fair.

Based on the evidence presented by our DAB for January, it would appear that travel-trailer dealers have a bumpy road ahead of them.

Truck Campers

This was the only "down" category for January, but it wasn't as bad as the percentages suggested. Both of our major camper dealers were slightly up for the month. The small numbers and the fact that one of our members dropped campers late last year threw us off kilter a bit. Profits were rated excellent by one of our major camper dealers, and the others reported fair ratings. There's no question that used sales were off.

Based on the "up" figures of both of our camper specialists, it would appear that this will be a reasonably good year for the serious camper dealer.

Folding Camping Trailers

Although it was early for substantial sales of this RV type, sales results in January boded well for '89. The increase over the previous January was small, but DAB dealers who stock this type more than welcomed any increase. Early-show results saw one of our "heavy hitters" of this type slightly ahead of last year and one slightly behind. Profits were rated good or fair.

There's neither reason for optimism nor pessimism in our figures for fold-downs in January. However, based on the evidence we have, it would seem reasonable to predict that 1989 will be very much a repeat of '88 for this RV type.

Fifth-wheels

Fivers were still on a roll. They ended up last year well ahead of the previous year, and there was no sign of a change in direction. Eight DAB members were up in new-unit sales, and four were down. No one on the board got really big-unit numbers; the highest was eight for the month, and most received three or fewer. Profits were rated generally good. Used units were slightly ahead of last January.

Anyone who bets that this year will see five numbers running ahead of last will be making a very safe bet. Δ

	NEW UNITS						USED UNITS					
	FOR MONTH			YEAR-TO-DATE			FOR MONTH			YEAR-TO-DATE		
	JAN. 1988	JAN. 1989	% CHANGE	1988	1989	% CHANGE	JAN. 1988	JAN. 1989	% CHANGE	1988	1989	% CHANGE
MOTORHOMES	157	112	+40	157	112	+40	126	106	+19	126	106	+19
TRAVEL TRAILERS	91	76	+20	91	76	+20	69	68	+1	69	68	+1
TRUCK CAMPERS	11	13	-15	11	13	-15	7	15	-53	7	15	-53
CAMPING TRAILERS	66	64	+3	66	64	+3	8	8	0	8	8	0
FIFTH-WHEELS	35	26	+35	35	26	+35	17	15	+13	17	15	+13

	FOR MONTH			YEAR-TO-DATE		
	JAN. 1988	JAN. 1989	% CHANGE	1988	1989	% CHANGE
SALES VOLUME	\$12,914,195	\$10,070,572	+28	\$12,914,195	\$10,070,572	+28
TOTAL UNIT SALES	587	503	+17	587	503	+17
NEW-UNIT SALES	360	291	+24	360	291	+24
USED-UNIT SALES	227	212	+7	227	212	+7

The "DAB Perspective" is a compilation of data provided by RV Business' Dealer Advisory Board, a group comprised of 24 dealers representing a cross section of the U.S. dealer body.

Gaylord Maxwell, chairman; Dave Altman, Baldwin Park, Calif.; Robert Azavedo, Sunnyvale, Calif.; Jack Cole, Pacoima, Calif.; Dick Dasso, Victor, N.Y.; Bill De Groot, Junction City, Ore.; Crosby Forrest, Newport News, Va.; Ben Samel, Fresno, Calif.; Jerry Green, Columbus, Ohio; Jerry Harrison, Waco, Texas; Bettie Helgeson, Seattle, Wash.; Newton Kinsland, Orlando, Fla.; Ozzie Loshard, Sayville, N.Y.; Larry McClellan, Oklahoma City, Okla.; Annette Artry-Miller, Fayetteville, N.C.; Jack Moran, Warwick, R.I.; Mike Papp, Albuquerque, N.M.; Edward Peterson, Lafayette, Ind.; William Pifer, Warren, Mich.; Tom Schaeffer, Shoemakersville, Pa.; Mel Shipps, Chattanooga, Tenn.; Jack Sizemore, Amarillo, Texas; Bill Thomas, Bridgeton, Mo.; Randy Thompson, Crystal Lake, Ill.; Larry Washburn, Lakewood, Colo.

This report is an attempt to reflect the current retail sales picture; it does not purport to indicate RV production or factory sales to dealers.

ministration policy favoring domestic oil producers) are likely to cause motor-fuel prices to rise faster than increases in the Consumer Price Index (CPI), which is also a depressing force for several class of RVs. (See Figure 4.)

The biggest factor working against RV growth, however, is the slowdown in the growth of real disposable income. After a 3.8% increase in 1988, we now foresee only a 2.6% growth in '89, and less than 1% growth in '90. Unemployment will begin to become a topic of greater national attention as we progress in the forecast period. Housing starts are expected to fall, while auto sales stagnate. (See Figure 5.)

The higher interest rates will lead to no improvement in the federal deficit situation, even though federal spending for goods and services is steady or declining. (Remember Gramm-Rudman-Hollings does not hold if the economy is not growing by 2% or better.) Meanwhile, compensation per manhour continues to rise, while we make little gain in productivity because we are not investing in new technology. The result is a steady climb in unit labor costs, the cost-push factor of inflation.

Summary

The RV industry is expected to grow again in 1989, but a squeeze will take hold early in the year and lead to a decline in shipments for 1990. The forces of inflation are encouraging the Federal Reserve Board to follow a monetary policy that leads to higher interest rates. We seem headed for a period of stagnation and inflation, or "stagflation" as the journalists like to call it.

The way out of this morass is not simple. It requires increases in investment leading to rising productivity. But businesses do not want to invest during a questionable time when demand may slacken and interest rates are high.

Investment incentives in the tax code can be achieved only if they are offset by higher taxes for other taxpayers. For whom? For you, not me, brother! That's the American credo. If George Bush thought he had a tough time with John Tower and the Senate, wait until he tries a rational economic policy. But do not hold your breath in expectation of such a policy. "Rational" and "political" are not in the same dictionary. **Δ**

This forecast is specifically produced for RV Business by the Center for Econometric Model Research at Indiana University. The national forecast was prepared under the direction of Professor R. Jeffery Green, with the RV forecast developed by Lee A. Craig. The text and interpretation is the responsibility of Morton J. Marcus, director of the Indiana Business Research Center in the Indiana University School of Business.

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 b. Travel trailers or fifth wheelers
 c. Folding camping trailers
 d. Van conversions
 e. Truck campers
 f. Pick-up covers or caps
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